

**State Treasurer's
Annual Summary
on the
Financial Condition
of the State
of Louisiana**

**For the fiscal year
ended
June 30, 1999**



Prepared by

**John Neely Kennedy
State Treasurer**

for

**The Honorable
Murphy J. "Mike" Foster, Jr.
Governor**

**The Members of the Legislature
and the People of Louisiana**



Table of Contents

1	Treasurer's Letter
2	About the Annual Report
2	State Treasurer's Overview
3	The Louisiana Economy
3	State Debt
5	State Credit Rating
6	Unfunded Accrued Liability
8	Cash Flow and Investments
10	Louisiana Education Quality Trust Fund
11	Budget and State Spending
12	Tobacco Settlement
13	Linked Deposit Program
13	Cash Management Auditor
14	Rainy Day Fund
14	E-Commerce
15	New Technology
15	Conclusion

Cover photo by Sheila McCant



To The Honorable Murphy J. "Mike" Foster, Jr., Governor of Louisiana,
The Members of the Legislature, and
The People of Louisiana:

On January 10, 2000, I was sworn in as Treasurer of the State of Louisiana. I take seriously the commitment I made to the people of this state to treat the money for which the State Treasurer is responsible as their money - taxpayers' money - not "government" money. I intend to keep that promise.

My initiatives include:

- Exploring the merits of selling or securitizing a portion of the state's multi-million dollar tobacco settlement in order to guard against the risk of an uncertain future for the tobacco industry.
- Helping Louisianians recover unclaimed property from state and federal governments.
- Improving the state's bond rating by working closely with bond rating professionals, other state officials and the legislative leadership.
- Establishing a Revenue Efficiency Conference, whereby new ideas can be developed to save money and promote efficiency.
- Creating an Efficiency Fiscal Officer in the Treasury Office whose only job will be to solicit input from taxpayers about how to save money and make state government work smarter and better.
- Working closely with the legislature on fiscal issues during regular and special sessions.

I look forward to serving the people of the State of Louisiana. I won't be the kind of Treasurer who counts the money and goes home. I plan to speak out on a wide range of fiscal and governmental issues that have a practical affect on people's lives, including how we raise revenue, how we spend the people's money, and what changes we need to make to ensure that Louisiana is fiscally prepared for the new millennium.

Sincerely,

A handwritten signature in black ink that reads "John Kennedy". The signature is stylized with a large, looped "J" and a long horizontal line extending to the right.

John Neely Kennedy
State Treasurer

About the Annual Report

The Louisiana Constitution requires that the Treasurer submit an annual report on the financial condition of the state to the Governor and Legislature before the start of each year's Regular Legislative Session. Traditionally, the Treasurer's Annual Report was a part of The Comprehensive Annual Financial Report (CAFR) prepared by The Division of Administration.

The CAFR is a very complex and complicated book of numbers; even for most financial experts, it is difficult to read and understand. It is so voluminous that most individuals refuse

to review the report, much less analyze it. The Treasurer's Office is committed to making state government more user friendly and less difficult. For this reason, we now present an annual summary on the financial condition of the state.

Our goal is to make the report simple and straightforward so you don't have to be a C.P.A. to understand the financial condition of our state. It is only fair, because, after all, it's your money that we are using to pay the bills.

State Treasurer's Overview

The State Treasurer is a constitutional officer and a statewide elected official. The Treasurer serves as the state's Banker and Chief Investment Officer and is responsible for the prudent financial management of state funds. The Treasurer serves a four-year term.

The Treasurer is the principal custodian of the state's cash deposits, collateral, monies from bond sales and other securities. He also directs the investments of those assets. The Treasurer manages cash flow for a state budget in excess of \$13 billion. He manages a "general fund" portfolio with an average daily investment of \$2.2 billion, which generated \$134.7 million in investment earnings for fiscal year 1998/99, and provides oversight for the investment of approximately \$17 billion in state retirement funds.¹ He administers the Louisiana Education Quality Trust Fund (LEQTF) portfolio of \$894 million, which generated \$66.9 million in income for fiscal year 1998/99.

The Treasurer administers the state's debt service payments to bondholders on approximately \$2.5 billion in outstanding debt.

The Treasurer is Chairman of the State Bond Commission. The Bond Commission is comprised of statewide elected officials, legislators and the Commissioner of Administration. The State Bond Commission must approve all debt issued by the state, political subdivisions, state agencies, and local governments.

The Treasurer maintains an ongoing relationship with the financial community, including credit rating agencies. He conducts outreach with state agencies and keeps legislators and Louisiana citizens informed about the operation of the Treasurer's office as it pertains to matters of state finance.

The Treasurer is also an ex-officio member of 20 boards and commissions and serves on a number of special committees and commissions.

The Louisiana Economy

“The Louisiana Economic Outlook 2000 and 2001,” prepared by Drs. Loren C. Scott, James A. Richardson, and A.M.M. Jamal, offers a helpful in-depth overview of the state’s economy and forecasts the next several years.

Here are some of the specific highlights detailed in the report:

- ◆ Louisiana’s non-agricultural employment is projected to rise by 61,600 workers over 2000-2001, propelling the state into its 13th and 14th straight years of growth.
- ◆ Oil and gas extraction employment is expected to begin a recovery phase in late 1999 or early 2000 and will add 1,200 new jobs over 2000-2001.
- ◆ Shipbuilding will be a major strength in the state’s manufacturing sector, as Avondale, Bollinger, and Edison Chouest shipyards remain in the hiring mode. Expect 700 new jobs here.
- ◆ The largest job generator will be the services sector with an estimated 26,600 jobs.
- ◆ Growth in the chemical industry is expected to be somewhat flat as a result of the “Asian Flu” and declining product prices, prompting the chemical industry to drastically revise its plans for expansion.

State Debt

Louisiana’s debt picture has improved significantly over the last decade. The reduction in state debt has been accomplished through a combination of factors.

One major contributing factor to the debt reduction is the constitutional amendment adopted by the voters of the state in 1993 which requires the use of year-end surplus funds to pay off

bonds early. Since 1994, Louisiana has undertaken a series of bond defeasances allowing the state to use its fiscal year-end surpluses to pay off debt early.

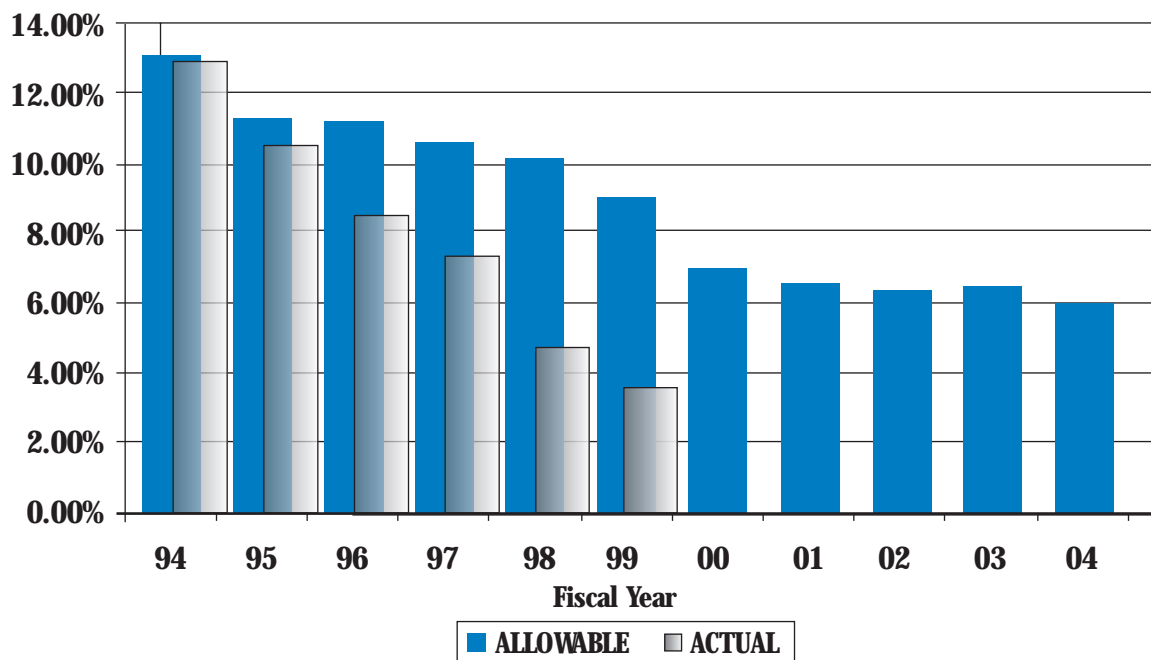
Another factor has been the issuance of a series of refundings of state general obligation bonds to achieve lower interest rates. These refundings have saved millions of dollars in interest.

State Debt

The voters of Louisiana passed a constitutional amendment which provided that a spending limitation be established so by fiscal year 2003-2004, and thereafter, debt service as a percentage of state revenue will not exceed 6 percent.

The chart below shows the debt limits voted in 1993 and the progress made in reducing the actual debt outstanding below these limits.

State Debt as a Percentage of State Revenue

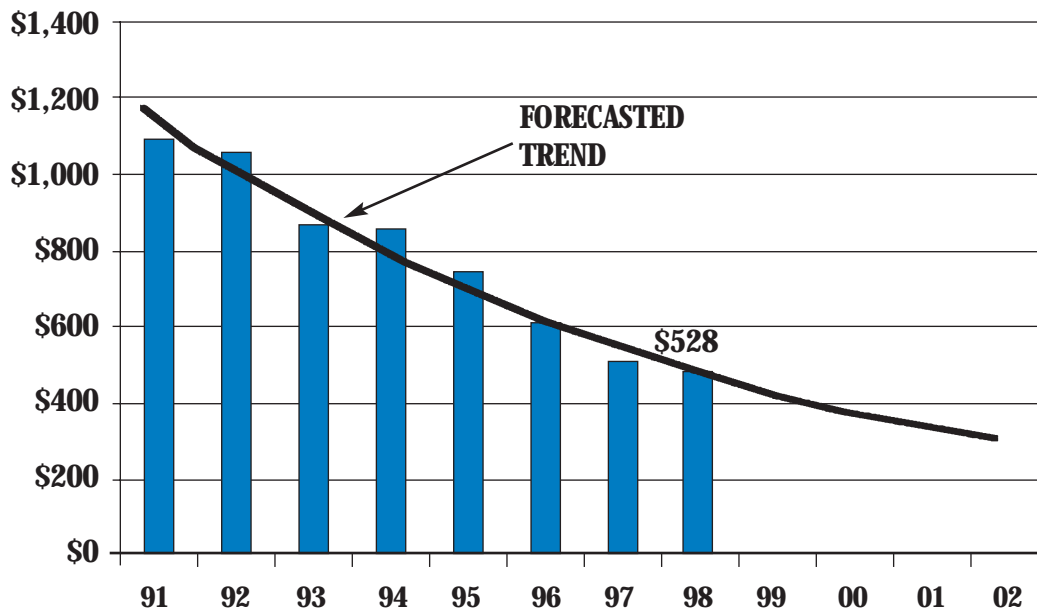


State Debt

To illustrate the progress which the state has made in debt management, in 1997, Louisiana's total outstanding debt on a per capita basis placed the state as the 11th highest in debt per capita in the nation. By 1999, Louisiana dropped to 23rd, a dramatic improvement in the state's standing relative to other states.

As shown in the chart below, the debt outstanding for every citizen in the state has been drastically reduced since the early nineties. Debt per capita is \$528, while the median debt per capita for all states is \$505. In 1999, the state's debt outstanding, as a percentage of personal income was 2.6 percent, or 21st among states, whereas the median for all states is 2 percent.²

Debt Per Capita



State Credit Rating

Three nationally recognized credit rating agencies-Fitch IBCA, Moody's Investors Service and Standard & Poor's-have assigned credit ratings of A, A2, and A-, respectively, to the state. There is

still much to be done to improve the state's credit ratings. The higher the credit rating, the more attractive our bonds are to investors on Wall Street, thus making it easier for the state to borrow money at lower interest rates.

² 1999 Moody's Medians

Unfunded Accrued Liability

Unfunded accrued liability is the amount of dollars the state is expected to pay to retirees in the future over and above the amount of the current resources of the retirement systems. State law requires that the state have funds available to meet this expected future payment.

The actuary for the Louisiana State Employees' Retirement System, Teacher's Retirement System of Louisiana and the Louisiana State Police Pension and Retirement System has issued the valuation of assets and liabilities of the respective systems as of June 30, 1999. The report was

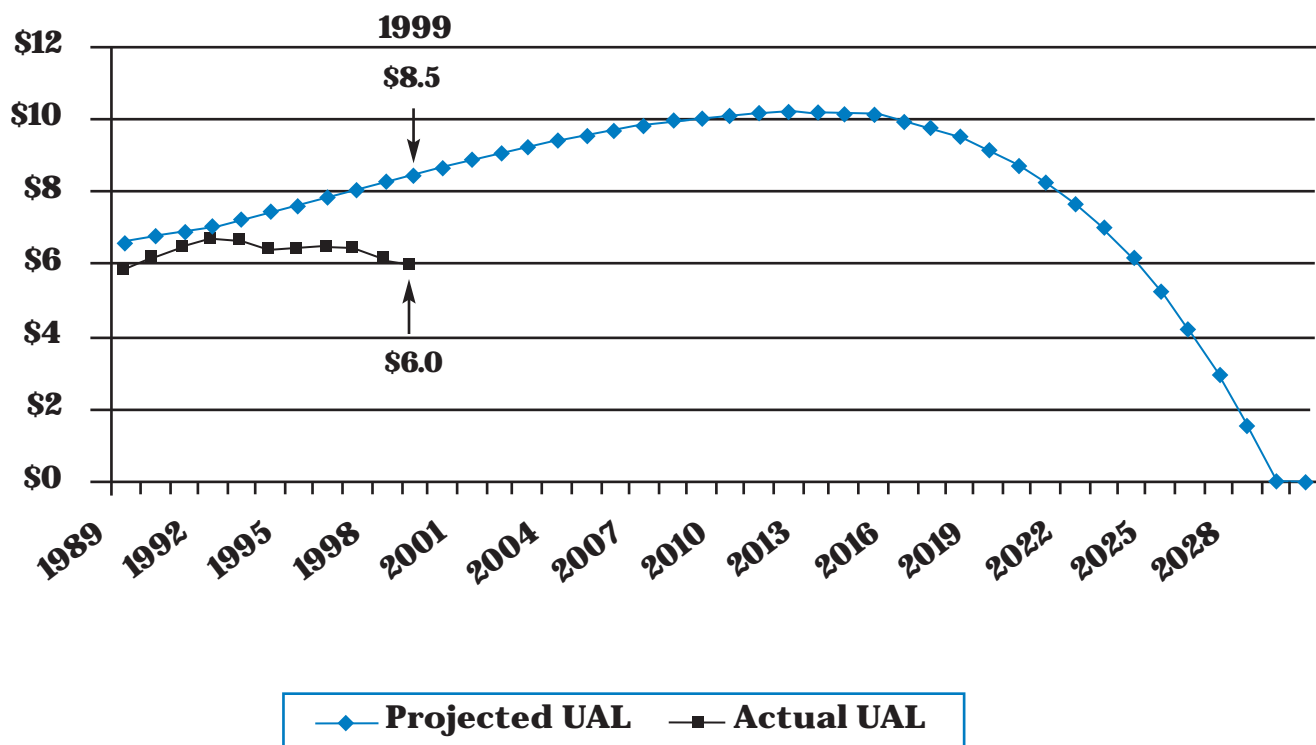
adopted by the Public Retirement Systems' Actuarial Committee (PRSAC) as its official valuations.

These valuations reflect a \$2.5 billion greater decrease in Unfunded Accrued Liability (UAL) as compared to the UAL "run-out values" or projected values in 1989.³

The Louisiana School Employees' Retirement System is overfunded by \$0.2 billion. As of June 30, 1999, the four state retirement systems are funded \$2.8 billion greater than expected.⁵

Projected vs. Actual Unfunded Accrued Liability (LASERS, TRSL, SPRS)

(Billions)



³ Louisiana State Employee's Retirement System, Teachers' Retirement System of Louisiana, Louisiana State Police Pension Retirement System, Hall Actuarial Associates June 30, 1999.

⁴ Louisiana School Employees' Retirement System, Hall Actuarial Associates June 30, 1999.

⁵ Louisiana State Employees' Retirement System, Teachers' Retirement System of Louisiana, Louisiana State Police Retirement System, Louisiana School Employees' Retirement System, Hall Actuarial Associates June 30, 1999.

Unfunded Accrued Liability

Louisiana has a framework that mandates actuarial funding for state retirement systems in the constitution, statutory provisions. These provide appropriate actuarial methods and assumptions and a mechanism that the PRSAC adopt official valuations. The legislature is meeting the required funding obligations resulting in well-funded state retirement systems.

Favorable investment performance is the primary reason for the UAL improvement for the four state retirement systems. However, we cannot anticipate future investments gains will be as substantial as the past.

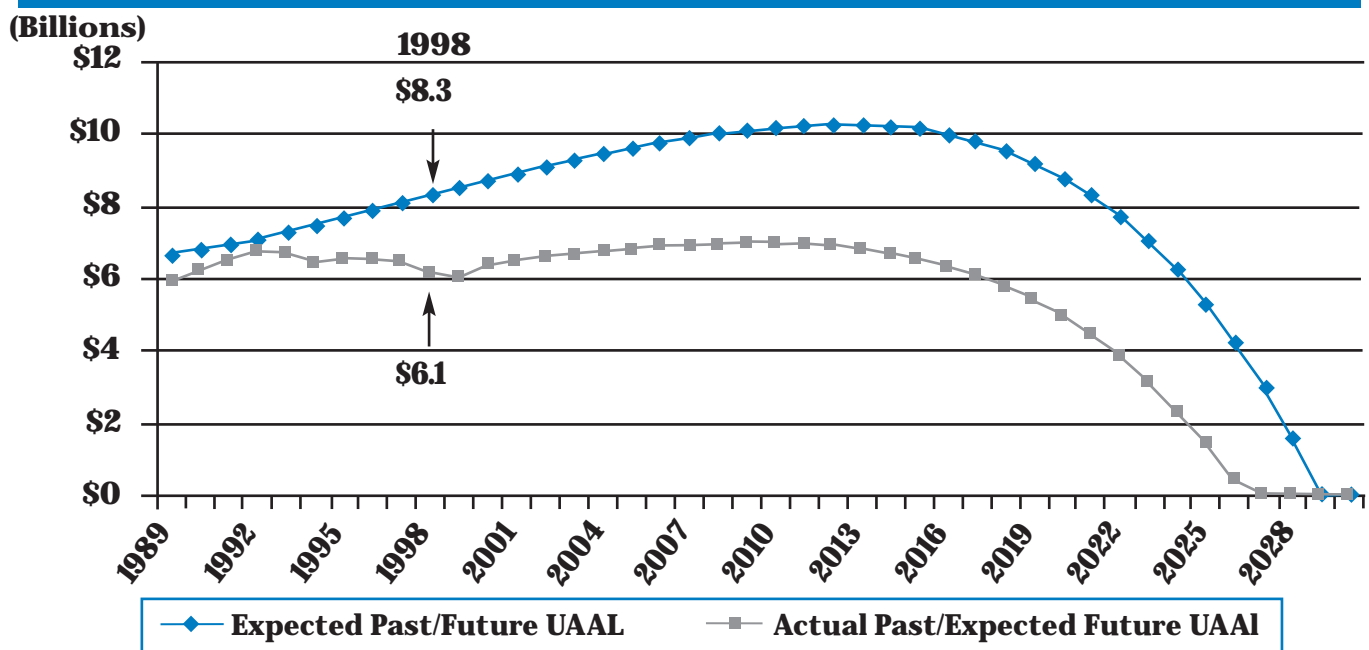
During the January 29, 1999 PRSAC meeting, a resolution was unanimously approved to appoint the four committee actuaries to an actuarial sub-

committee. The sub-committee was charged with the responsibility of preparing a summary report on the combined funding status of the four state retirement systems as of June 30, 1998.

At the January 14, 2000 PRSAC meeting, the sub-committee distributed its report which was unanimously approved. The report is based on data provided by Charles Hall, actuary for the four state retirement systems, and John Sondergaard, Legislative Actuary.

The report reveals that all four statewide systems are making better than expected funding progress since the Louisiana Constitution was amended in 1988 to require funding on an actuarially sound basis.

Louisiana State Retirement Systems Comparison of Actual Past/Expected Future with Expected Past/Expected Future Combined Unfunded Actuarial Accrued Liability (UAAL)*



* Does not include the overfunded actuarial accrued liability of the fourth state retirement system (School Employees), which was \$0.2 billion on June 30, 1998.

Source: Combined Funding Status of Pensions Benefits for Four State Retirement Systems as of June 30, 1998. Actuarial Sub-Committee - Public Retirement Systems Actuarial Committee, January 2000.

Cash Flow and Investments

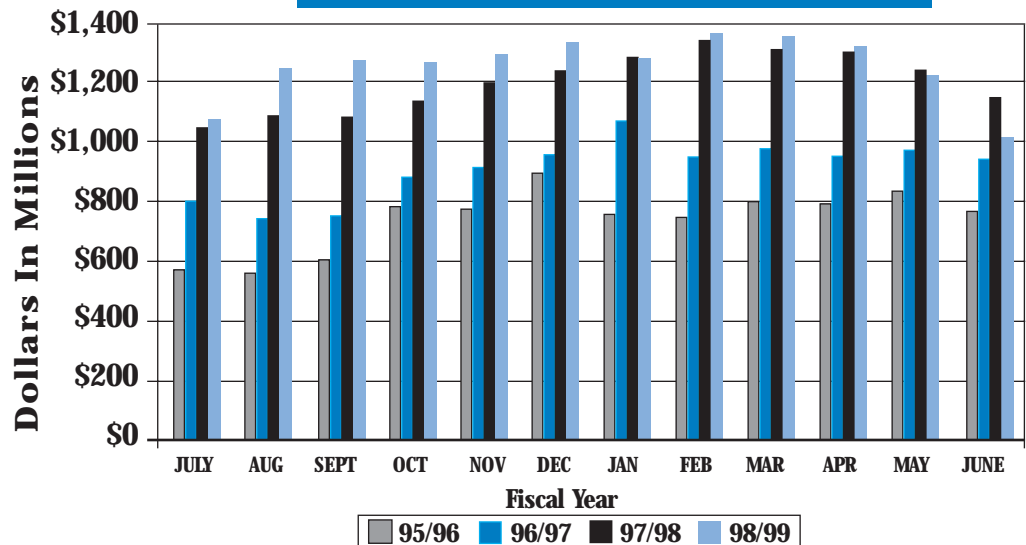
The cash flow of the General Fund varies month-to-month during the fiscal year. To insure the state meets its obligations during the months where expenses exceed income, the Treasury is authorized to borrow from different pools of state funds. The combination of these pools is known as the "interfund borrowing base." By law, to insure we do not overspend our annual budget, any loans made to the General Fund from the "interfund borrowing base" must be repaid by the close of each fiscal year.

The Interfund Borrowing Base chart depicted below reflects a strong base for interfund borrowing

during the fiscal year. This base ensures that the state will be able to continue to pay bills without delay.

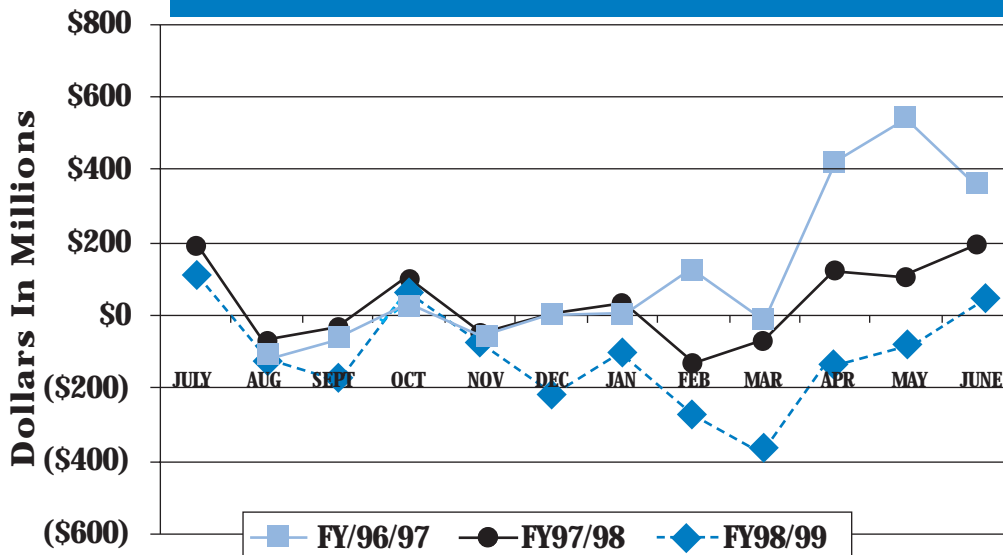
The General Fund Month-End Cash Balances chart depicts the cash position of the General Fund on the last day of each month depicted on the chart. Icons on the line graphs below the \$0 line indicate the level of interfund borrowing occurring on that date. The chart reflects the increase in the General Fund cash balance toward the end of the fiscal year. This occurs as income taxes are received by the state during April and May.

Interfund Borrowing Base



Data acquired from Advantage Financial System (AFS), the state's centralized accounting system.

General Fund Month-End Cash Balances



Data acquired from Advantage Financial System (AFS), the state's centralized accounting system.

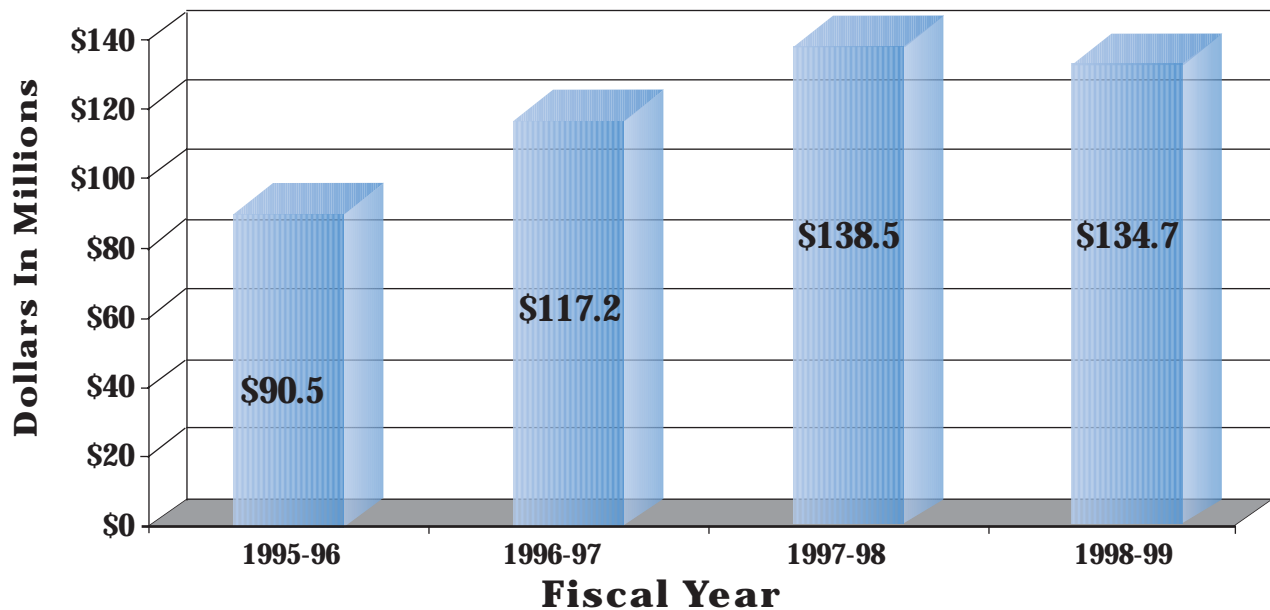
Cash Flow and Investments

The Treasury monitors the state's cash position on a daily basis. The information gained from this monitoring is linked to the state's investment program which assists the Treasury in gaining the highest available rate of return on its cash resources.

For fiscal year 1998/99, the Treasury earned **\$134.7 million** on its investments for the General Fund⁶.

These earnings represent a 5.9 **percent** return on the average assets available for investments during the fiscal year⁷. This cash basis rate of return for the General Fund compares very favorably to the yield curve level of the two-year U.S. Treasury Note of 4.3 percent for the same period of time.⁸

General Fund Total Earnings



⁶ Advantage Financial System (AFS), the state's centralized accounting system.

⁷ Calculation prepared by the Louisiana Treasury Department.

⁸ Summit Strategies, Inc., St. Louis, Missouri

The fixed-income and equity investments of the Louisiana Education Quality Trust Fund (LEQTF) earned a 4.8 percent total rate of return for fiscal year 1998/99.⁹ Total return is a time-weighted measure of actual income received during the year, plus accrued income and any change in the price of portfolio securities and cash at the end of each year.

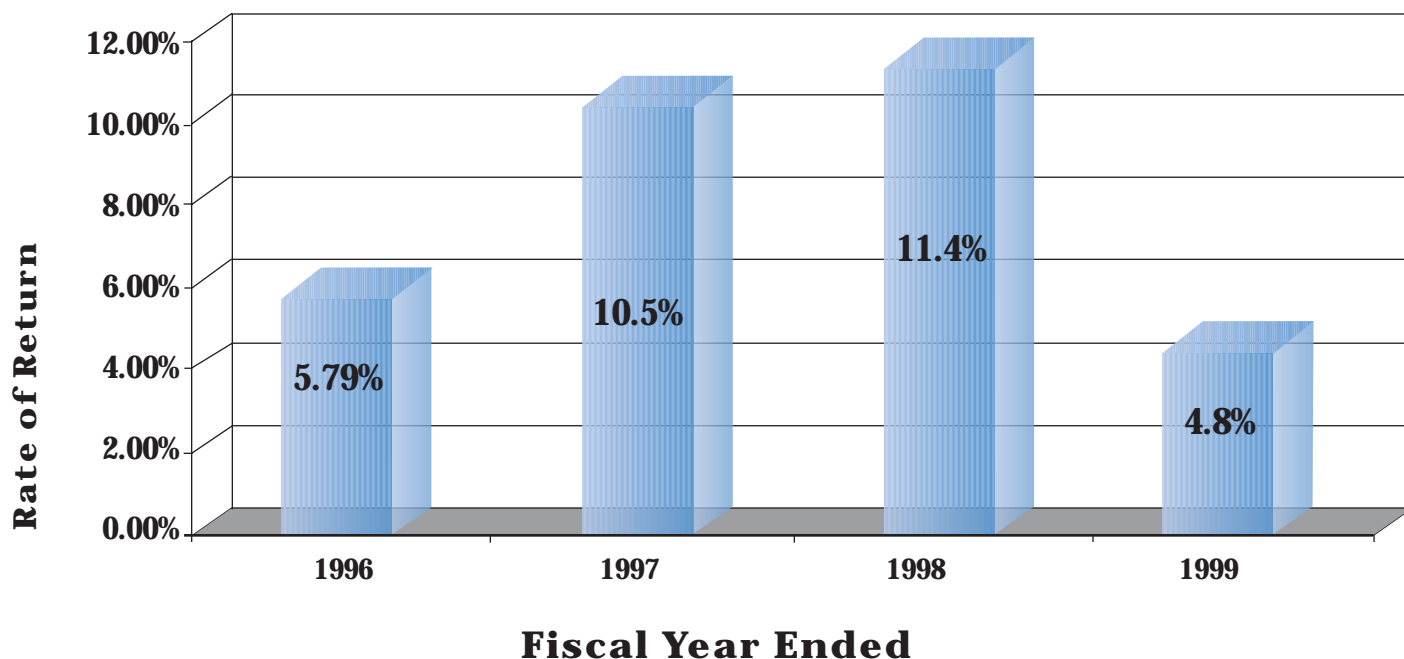
Act 802 of the 1990 Regular Session of the Legislature requires that investment earnings of the LEQTF be measured against the two-year U.S. Treasury Note and the 30-day U.S. Treasury Bill. Actual average maturity of the portfolio may vary with market conditions. All performance numbers are expressed in total return as meas-

ured at the end of each period. Total performance returns are calculated by an independent consultant.

Again this year, the LEQTF exceeded the return of its legislative benchmarks, the 30-day Treasury Bill and the two-year Treasury Note. The 30-day Treasury Bill returned 4.3 percent and the two-year Treasury Note returned 4.3 percent versus a LEQTF return of 4.8 percent.

For the fiscal year, which ended June 30, 1999, the LEQTF earnings provided \$56.4 million¹⁰ in additional funding for classroom computers, teacher training, matching grants, and research at our universities.

Louisiana Education Quality Trust Fund



⁹ LEQTF Annual Report, June 30, 1999; page 14.

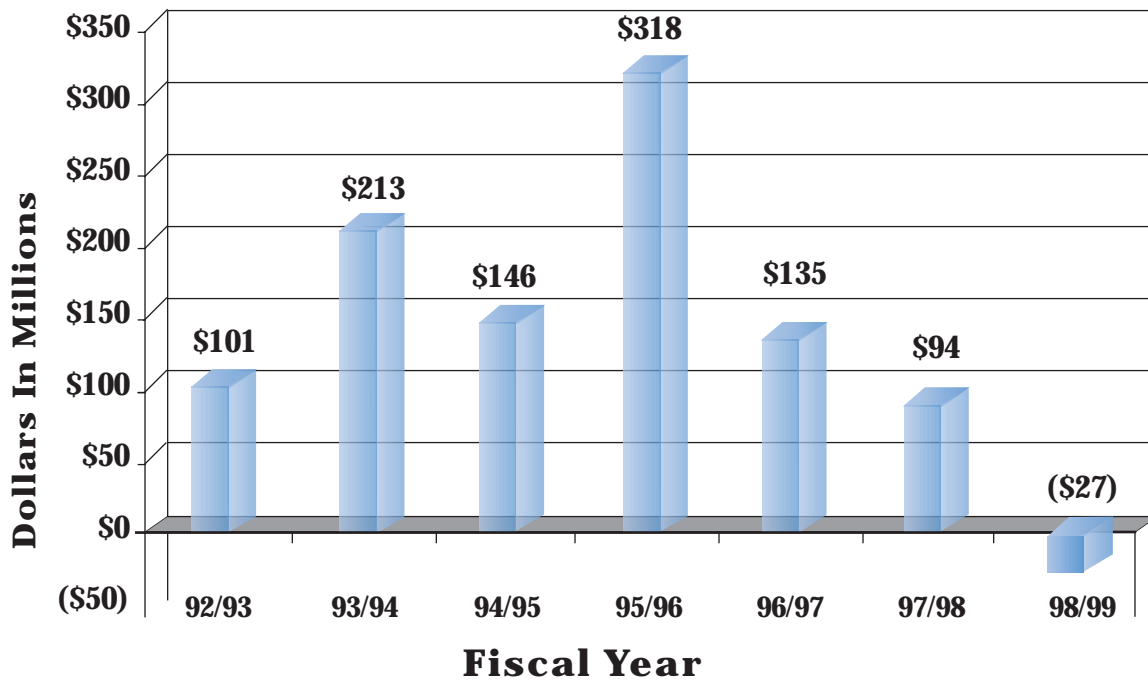
¹⁰ LEQTF Annual Report, June 30, 1999; page 12.

Budget and State Spending

The booming national economy significantly boosted revenues of most state governments in fiscal year 1998-1999, but Louisiana did not share in the largess. Revenues from taxes fell by \$11.4

million.¹¹ Although corporate franchise tax, income tax and sales tax increased for a total of \$66.1 million, severance tax declined by \$90.1 million.¹²

General Fund Operating Surplus



In fiscal year 1998-1999, Louisiana suffered its first General Fund deficit in seven years - \$27 million.¹³ By law, the deficit must be discharged in fiscal year 1999-2000. It is anticipated the \$27 million fiscal year 1998-1999 deficit will be covered by spending less than budgeted and revenue collections greater than anticipated in fiscal year 1999-2000.

Subsequent Event

To insure the state will not suffer a fiscal year 1999-2000 General Fund deficit resulting from appropriations exceeding actual revenues, Governor Foster issued Executive Order MJF 99-52 in December 1999. The Executive Order implements a spending freeze throughout the executive branch of state government to achieve a state General Fund savings of at least \$50 million for the remainder of the 1999-2000 fiscal year.

¹¹ Louisiana Comprehensive Annual Financial Report, June 30, 1999

¹² Ibid

¹³ Ibid

Tobacco Settlement

Louisiana is projected to receive approximately \$4.6 billion over the next 25 years to offset costs associated with tobacco-related health care as a result of the landmark tobacco settlement between the 46 states and the tobacco industry.

Several initiatives are underway which may affect the future of the tobacco industry. The Food and Drug Administration is pushing to take jurisdiction over the approval of tobacco distribution, the federal government has filed its own suit against the tobacco companies to regain federal monies spent on the treatment of tobacco-related illness, and there is an intense campaign aimed at reducing the number of smokers in the United States.

Since the future stability of the tobacco industry is uncertain, the Governor has established a 14-member Tobacco Settlement Payment Options Task Force, which Treasurer John Kennedy and Commissioner of Administration Mark Drennen co-chair. The objective of the task force is to recommend ways to optimize the state's return while minimizing risks, on Louisiana's projected \$4.6 billion settlement. Currently, the settlement is structured so the state will receive approximately \$180 million in annual payments from the tobacco companies over the next 25 years.

The state legislature allocated the state's first annual payment from the tobacco settlement to balance the 1999-2000 budget. The remaining payments have been constitutionally dedicated. They are divided between the Louisiana Fund and the Millennium Trust, which is specifically dedicated to supporting health and education initiatives and the TOPS scholarship program. According to the constitutional amendment, which goes into effect July 1, 2000, the Millennium Trust will begin receiving 75 percent of the annual tobacco settlement payments in fiscal year 2002-2003.

The task force will compare the risks associated with the State taking the tobacco settlement payments over a 25 year period or securitizing or selling the settlement for a lump-sum cash payment. Also, the task force must decide what the constitutional and/or statutory impact of securitizing or selling the tobacco settlement would be. The task force will carefully review the options available to Louisiana. A comprehensive report will be prepared for the Governor by March 31, 2000.

Regardless of the outcome, the Treasury will do everything in its power to see that the money is properly invested to maximize the State's earnings.

Linked Deposit Program

The Small Business Linked Deposit Program is designed to create and save jobs by joining small business owners together with lending institutions.

This program authorizes the State Treasurer to channel a small portion of the state's investment portfolio into reduced rate certificates of deposit. These reduced rate investments are then "linked" to reduced rate loans by banks for use by qualified small businesses in an effort to stimulate employment in the state.

Kevin Reilly, Secretary of the Department of Economic Development, and the Treasury restructured the program in December 1998 to be more responsive to the needs of small business. In order to make this possible, funding increased from \$20 million to \$25 million, and depending upon the continued success of the program, may increase to \$30 million. Top priority is given to small businesses in the areas of high unemployment which

are targeted to further the program's goal of creating new jobs and preserving existing jobs.

The Small Business Linked Deposit Program is one of the few successful state programs available to small business owners seeking start-up expansion financing.

Linked deposit programs in other states target specific types of small businesses. In Illinois, the Treasurer's targeted initiative program provides linked deposits to organizations that provide child care for working parents, help individuals find jobs, prevent the early institutionalizing of the elderly by offering adult day care, provide care for the disabled, as well as many other initiatives that revitalize and strengthen the community.

Programs such as Illinois' targeted initiative program are being studied to determine their feasibility in Louisiana.

Cash Management Auditor

The Treasury Cash Management Audit Program works with state agencies to maximize interest earnings on public funds and to identify cost savings available through improving processing procedures. As a result of these efforts, the Treasury has identified cumulative annual savings to the taxpayers of \$500,000-\$2 million in additional interest earnings and \$1.5 million in annual cost savings.

In cooperation with the University of Louisiana System Office, all institutions of higher education have been brought into compliance with LRS 49:327C(b) by adopting written investment policies which have been approved by the Cash Management Review Board (CMRB). These policies allow the institutions to earn a greater return on investments by expanding the investment options, while at the same time protect against erosion of principal.

“Rainy Day Fund”

On May 10, 1999, the initial deposit of \$23.5 million into the “Rainy Day Fund” was accomplished (This amount constituted 25 percent of the \$94.2 million fiscal year 1997-1998 General Fund surplus.¹⁴). During the remainder of the fiscal year, an additional \$64 thousand in interest was earned.

Louisiana now truly has a safety net for emergency funding.

It is anticipated that a minimum of \$20 million will be deposited into the fund in fiscal year 1999-2000. This amount results from 33.3 percent of state receipts from the New Orleans land-based casino.¹⁵

E-Commerce

Businesses — from the largest corporations to the smallest specialty shops — are setting up shop on the Internet. The Internet enables inexpensive, broad-reaching opportunities to access existing and new expanding markets.

Governments provide unique goods and services to customers too; thus, governments should also utilize good business practices for the benefit and convenience of its customers.

The Louisiana Data Base Commission, is creating a one-stop shopping mall, referred to as the

“E-Mall,” that will provide customers access to the goods and services offered by state agencies.

Treasury is assisting the Commission with banking and cash management expertise, to allow customers who visit the “E-Mall” to pay for desired goods and services by credit and debit cards on the Internet.

The Internet is fast becoming the shopping mall of choice, and Treasury is on the cutting edge in this new and exciting adventure!

¹⁴ Louisiana Comprehensive Annual Financial Report, June 30, 1998

¹⁵ Revenue Estimating Conference, Official Revenue Estimates, December 7, 1999

New Technology

Several pieces of legislation passed during the 1999 Legislative Session enabling the State Bond Commission to adopt procedures to modernize the process by which the state sells bonds. One of the procedures will allow the state to utilize electronic bidding and facsimile reception to accept bids on competitively bid state issues. Another would allow the use of a surety bond instead of the bidder submitting a good faith check.

The State Bond Commission staff has secured professional information system services to replace the state's obsolete State Debt Tracking System. The contractor, Dubois Brown & Company (DBC), was chosen from three proposals received. DBC has undertaken procedures to convert the department's existing state debt and

reimbursement contract data to the new system. The new system will be in place by the end of the first quarter of 2000.

Professional information system services have been procured by the State Bond Commission from Strategic Business Solutions (SBS) to develop a Local Debt Tracking System. SBS has developed a system to automate the procedures to incorporate the department's existing accounts receivable and fee rebate systems into the new SBC debt management system and for analytical research for current applications. The system has been running since December 1999, and, as applications for debt approval are received, they are input into the new system for numbering and analyst assignment.

Conclusion

Thank you for the opportunity to serve as your State Treasurer. I will work closely with my fellow elected colleagues to insure that Louisiana is fiscally prepared for the new millennium. You can be assured that I will be an outspoken member of state government when it comes to practical matters that impact us all.

I encourage your input on how we can improve the State Treasury. If you have any questions or would like to comment on this report, please contact my office at (225)342-0010. You are also invited to visit the Treasury's website at www.treasury.state.la.us.

Treasury Senior Staff

Please feel free to contact any of my staff members if we can be of assistance to you.

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